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FM AMEMBASSY ULAANBAATAR
TO RUEHC/SECSTATE WASHDC PRIORITY 1395
INFO RUEHUL/AMEMBASSY SEOUL 2896
RUEHMO/AMEMBASSY MOSCOW 1868
RUEHTA/AMEMBASSY ASTANA
RUEHBJ/AMEMBASSY BEIJING 5722
RUEHML/AMEMBASSY MANILA 1434
RUEHLO/AMEMBASSY LONDON 0173
RUEHKO/AMEMBASSY TOKYO 2608
RUEHBK/AMEMBASSY BANGKOK 1513
RUEHOT/AMEMBASSY OTTAWA 0487
RUEHBY/AMEMBASSY CANBERRA 0159
RUEHHK/AMCONSUL HONG KONG 0818
RUEHSH/AMCONSUL SHENYANG 0302
RUEHVK/AMCONSUL VLADIVOSTOK 0134
RUEHOK/AMCONSUL OSAKA KOBE 0034
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC 0677
RUCPODC/USDOC WASHDC 1356
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

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STATE FOR EAP/CM, EAP/EX, AND EB/TRA
STATE PASS USTR, EXIM, OPIC, AND EPA
STATE PASS AID/ANE D. WINSTON
MILLENNIUM CHALLENGE CORP WASHDC FOR F. REID
TREASURY PASS USEDTS TO IMF, WORLD BANK
MANILA AND LONDON FOR USEDTS TO ADB, EBRD

E.O. 12958: N/A

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SUBJECT: Mongolia's Railroad Woes: Construction, Other Materials
Stack Up at Chinese Border for Lack of Locomotives, Rail Cars

Ref: Ulaanbaatar 0394

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¶1. (SBU) Chairman of the Railway Authority of Mongolia Davaadorjiin Ganbold (protect) told the DCM August 17 that greatly increased traffic plus a shortage of locomotives and rail cars (wagons) had resulted, over the past few months, in an ominous peak backlog of some 800 rail cars at the border between Mongolia and China. (China uses narrow gauge while Mongolia and Russia use wide gauge tracks, requiring a shift of cargo or changing of wheels.) Mongolia's railway has been feverishly working down the backlog, which remains at around 600 cars as of last week. He complains that breakdowns by Mongolia's aging fleet of Russian locomotives have contributed to the problem, but growth in demand is the cause of the problem.

¶2. (SBU) Ganbold said he was concerned because China had grown impatient at Mongolia's inability to drawdown the backlog and last week issued instructions that no more cargos were to leave the port of Tianjin until Mongolia trimmed the backlog significantly. Adding to Ganbold's woes, warehouse costs in Tianjin are mounting, increasing already high transportation costs. However, Ganbold reassured the DCM that consumer goods and other non-construction materials shipments would continue unabated and unaffected.

¶3. (SBU) Regarding growth in rail demand, Ganbold noted that Mongolia's railway was operating at about 40% greater capacity this year than last, having eked out what efficiencies it could, but shipments, primarily of construction materials to feed Ulaanbaatar's burgeoning construction boom (reftel), were up 40% last year and had

doubled - repeat doubled - this year. He observed that last year's long, warm autumn had allowed construction to continue into November and early December; weather is an unknown variable in this equation.

14. (SBU) Ganbold noted there had been a slight lightening of loads from Russia following Russia's recent implementation of an export tax on timber, but he expected the China market would soon factor this into prices, and volumes would return to previous levels and then follow recent expansion trends. He also predicted a new oil contract between Russia and China would replace the lapsed Yukos deal, bringing back that important and substantial (and lucrative) trade, but adding pressure to the railway's capacity. Ganbold added that he and the railway's management had earlier predicted a backlog would emerge this year, and, in his view, this simply underscored the importance of the hopefully-soon-to-be-signed Millennium Challenge Account compact's railway enhancement project. (Note: The Yukos transshipment of petroleum through Mongolia yield US\$6 million to the railroad monthly. The loss of the Yukos oil revenues hit the railroad at a crucial moment. Just as trade was expanding, the railroad was deprived of a key source of revenue that would have allowed the railroad to pay for needed upgrades and expansion of its systems to take advantage of the growth of shipping through, to, and from Mongolia.)

15. (SBU) COMMENT: Earlier this summer we had heard of problems at the Mongolia/China border crossing point, and, reflecting this, some products disappeared from the shelves in Ulaanbaatar's department stores. The products have since reappeared, albeit in smaller volumes and some with slightly higher prices. Construction on the Hilton Hotel (adjacent to the compound which houses most Embassy staff), for example, has virtually come to a standstill, as its

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materials are stuck at the border, according to the manager/investor. Ganbold's comments that other shipments, such as staff household effects, cars, and goods for Embassy operations, would not be affected were reassuring, but post will carefully monitor this situation. END COMMENT.

MINTON